

STATE OF CONNECTICUT  
OFFICE OF POLICY AND MANAGEMENT

*TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE  
March 27, 2009*

*Robert L. Genuario  
Secretary  
Office of Policy and Management*

*In Support of*

S. B. No. 828 AN ACT CONCERNING STATE REVENUE.

S. B. No. 829 AN ACT CONCERNING PERSONNEL MATTERS.

H. B. No. 6363 AN ACT IMPLEMENTING THE GOVERNOR'S BUDGET  
RECOMMENDATIONS CONCERNING GENERAL GOVERNMENT, CONSERVATION,  
DEVELOPMENT, REGULATION, PROTECTION, JUDICIAL AND CORRECTIONS.

H. J. No. 45 RESOLUTION PROPOSING AN AMENDMENT TO THE STATE  
CONSTITUTION TO REQUIRE THAT SEVENTY PER CENT OF ANY BUDGET  
SURPLUS BE USED TO FUND A BUDGET RESERVE FUND OR REDUCE BOND  
INDEBTEDNESS AND THAT NO PORTION OF ANY REMAINING SURPLUS FUNDS BE  
USED TO PAY FOR RECURRING EXPENDITURES.

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Senators Harp and Debicella, Representatives Geragosian and Miner, and distinguished members of the Appropriations Committee, my name is Robert Genuario and I am the Secretary of the Office of Policy and Management and I am here to testify in support of a number of bills proposed by the Governor to implement her budget recommendations.

**SB 828, An Act Concerning State Revenue** will suspend certain transfers of moneys from the General Fund to other funds and accounts of the state, and also transfers other moneys to the General Fund from a number of other funds and accounts.

In January and March of this year, the General Assembly passed and the Governor signed PA09-1 and PA09-2, two Deficit Mitigation Plans which included fund transfers to the General Fund totaling \$119.9 million. This bill will continue that process into the new biennium by transferring a total of \$133.2 million in fiscal year 2010 and \$128.1 million in fiscal year 2011. These transferred amounts will help to balance the budget in a difficult situation. Further, the various accounts which have been selected for these transfers, have, for various reasons, generally built up excess funds over the years and

have been carrying cash balances. Even after the transfers, with additional revenues accruing during the year, these accounts will still have adequate balances to support normal activities. Further, it is good financial management to put the money to use for state government's core functions rather than sitting in some off-budget account earning minimal interest in this economy. Given that the two deficit mitigation plans have already transferred \$7 million from the Workers' Compensation Fund, we are no longer recommending the proposed transfers from the fund during the upcoming biennium.

Fund Transfers to the General Fund  
(Amounts in Millions)

Fund/ Account	PA09-1	PA09-2	Proposed		Projected Balance End of
			FY2010	FY2011	FY2011
1. Citizens' Election Fund	\$ 7.5	\$ 1.0	\$ 12.0	\$ 12.0	\$ 43.6
2. Tobacco & Health Trust Fund	6.0	0.6	16.0	16.0	-
3. Banking Fund	15.0	-	8.5	8.5	-
4. Biomedical Research Trust Fund	3.0	-	9.0	9.0	0.6
5. Fuel Oil Conservation Board	10.0	-	5.0	5.0	2.5
6. Workers' Compensation Fund	4.0	3.0	2.0	2.0	15.0
7. Pre-trial Alcohol and Drug Account	2.0	-	0.6	0.6	0.1
8. Underground Storage Tank Clean-up Account	3.0	-	-	-	NA
9. Emergency Spill Response Account	3.0	-	-	-	NA
10. Emissions Fund	1.0	-	-	-	NA
11. Mashantucket Pequot and Mohegan Grant	0.2	-	-	-	NA
12. Energy Unit Load Management Account	1.0	-	-	-	NA
13. Public Education/ Government Programming	2.0	-	2.0	2.0	1.7
14. Consumer Counsel/ DPUC Fund	2.0	1.5	1.0	1.0	0.5
15. Public Bus/ Rail Operations	-	-	2.0	2.0	6.0
16. Siting Council	-	-	1.0	1.0	-
17. Commercial Recording Administration Account	1.0	-	0.5	0.5	0.5
18. Criminal Injuries Compensation	-	1.0	2.0	1.0	2.0
19. Community Mental Health Investment Fund	-	-	0.8	-	-
20. Dry Cleaning Establishment Remediation Acct.	-	-	0.8	-	0.1
21. New Automobile Warranties Account	-	-	0.5	0.5	0.5
22. Agriculture Viability	-	-	0.5	-	0.3
23. CT Energy Advisory Board	-	-	0.5	-	0.8
24. Utilization Review Fees	-	-	1.0	-	1.0
25. Animal Population Control Account	-	-	0.5	-	0.8
26. Client Security Fund	-	2.0	1.0	1.0	3.8
27. Stationary Air Emissions Monitoring	-	-	4.0	4.0	6.0
28. Farmland, Affordable Housing, Historic Preservation	-	-	12.0	12.0	(1)
29. Energy Conservation and Load Management Fund	-	-	40.0	40.0	(2)
30. Renewable Energy Investment Fund	-	-	10.0	10.0	(3)
31. DAS General Services Revolving Fund	1.2	-	-	-	NA
32. Charter Oak Health from Tobacco & Health Trust	3.7	-	-	-	NA
33. Local Bridge Revolving Fund	-	28.0	-	-	NA
34. Health & Education Facilities Authority	-	12.3	-	-	NA
35. Transportation Strategy Board	-	4.0	-	-	NA
36. Insurance Fund	-	1.0	-	-	6.8
Total	\$ 65.6	\$ 54.4	\$ 133.2	\$ 128.1	

(1) Generates approximately \$16.0 million annually.

(2) Receives approximately \$87.0 million annually.

(3) Receives approximately \$26.0 million annually.

This bill will also transfer to the General Fund, from the Budget Reserve Fund, \$514.5 million in fiscal year 2010 and \$585.5 million in fiscal year 2011. By spreading the use of funds out, rather than being used all in one year, the Budget Reserve Fund is being used as it was meant to be used. This allows for a smooth transition without creating a greater structural deficit, and allows the option for a reduction in the amount used if the financial situation improves in the last year.

This bill will permit, if necessary, in fiscal year 2011, securitization of up to \$350.0 million to sustain funding of programs by substituting for disbursements to the General Fund, from the Energy Conservation and Load Management Fund and the Renewable Energy Investment Fund. The various energy funds do good work. However, due to the dire economic situation we find ourselves in, we can not afford all of those activities right now. Also, during the 2003 legislative session the General Assembly securitized a portion of these very same funds for a total of \$194 million. \$169 million was utilized in FY2004 and \$25 million was utilized in FY2005. Of the total, \$144 million was derived from the ECLM fund and \$50 million from the Renewable Energy Investment Fund. The FY2007 surplus set aside \$85 million to defease the last of these bonds. We are still examining the federal stimulus package to see if it will affect the proposed revenue source to back this securitization.

Securitization was also proposed during the 2003 legislative session to fill the remaining gap in FY2005. At that time it was anticipated that \$300 million would be received by securitizing tobacco revenue. During the 2004 legislative session this proved not to be required and was repealed. However, a smaller securitization was enacted totaling \$40 million to securitize unclaimed property. This, too, was never undertaken.

This bill increases the Oil Companies Tax transfer from the General Fund to the Special Transportation Fund by \$20 million in FY 2011 and by \$30 million annually thereafter in order to balance the Special Transportation Fund as the growth in transportation fund expenditures continues to exceed the growth in revenue.

The expenditure growth is the result of several factors, including increased operating costs, especially for bus and rail programs and increased construction costs, and a number of major transportation projects will require funding over this biennium, resulting in an increase in debt service costs. Transportation fund revenue growth is slow, as the motor fuels tax, which accounts for approximately 40% of the transportation fund revenue is declining for the fourth year in a row and investment income has declined as the interest rates have fallen dramatically over the past year.

This bill will suspend the sales tax free week in August of 2009 and 2010. The first sales tax free week occurred in August of 2000. It occurs during the 3<sup>rd</sup> week in August and is for clothing and footwear items costing less than \$300.

When the income tax was enacted the exemption for single filers (\$12,000) was exactly half that of joint filers (\$24,000). The 1999 legislative session enacted an 8 year phase in of an increase in the exemption to \$15,000. Delays in the phase-in were enacted during the 2002, 2003 and the 2005 legislative sessions. As of January 1, 2008, the exemption level for singles was \$13,000. This is not a tax increase. The Governor is proposing to delay a tax cut until a time when the state's finances recover. The Governor's proposal would freeze the exemption level at that amount for income years 2009, 2010, and 2011. In income year 2012 the exemption level will rise to \$13,500 as previously scheduled. It is estimated to impact approximately 115,000 single filers.

This bill will cap the film industry production tax credit at \$30.0 million each year, and lower the star salary cap from \$15.0 million to \$5.0 million. The other provisions of the current film industry production tax credit remain as follows:

- Minimum expenditure: \$50,000
- Credit Percentage: 30% of Qualified Expenditures
- Applicable against the Corporation and Insurance Tax
- It is transferable but not refundable.

As of January 15, 2009, \$102.8 million in credits have been issued since the program began in 2006 for a total of 45 productions for an average credit certificate value of \$2.28 million. The value of the film tax credits that are works-in-progress but not yet issued is \$114.3 million as of January 15, 2009. Capping the film tax credit at \$30 million per year is expected to save the state \$25.0 million annually. No changes are being proposed to the digital animation tax credit or the film industry infrastructure tax credit

**Senate Bill 829, AAC State Personnel Matters** makes a number of changes related to the way we compensate state employees. This proposal is designed to be a reasonable adjustment that will create a more sustainable and affordable system for the taxpayers. This bill would:

- Eliminate the current longevity pay program for new State employees. Longevity pay in Connecticut pre-dates collective bargaining. Longevity pay was intended as extra compensation for employees who have reached the maximum salary of their wage schedule. It is outdated inasmuch as most labor agreements and the classified management pay plan provides for a bonus payment of some kind for employees who have reached the top level of their salary grade.

Longevity pay is not linked to performance and it is rather costly. It is commonly used as an incentive for reducing employee turnover, but that is really not a problem for State employees given the salary and benefits available to them. Under this bill, no employee currently receiving longevity pay would lose it. The longevity payment

amounts would be frozen for current employees, but would not be available to new employees. We would not take anything away from employees already receiving longevity pay while preserving resources by not expanding the pool of recipients or increasing the dollar amounts in the future. (A total of 37,226 employees received longevity payments in 2008 at an average annual rate (includes both the April and October payments) of \$1,129.16 - Total payments = \$42,034,171.96)

- Limits employee health coverage to those working twenty or more hours per week on average. The State provides medical insurance coverage to its employees and retirees. The State pays the lion's share of the premium. Employees working less than the twenty hours would be able to participate in the plan, but they would be responsible for both the employee's and the employer's share of the premium. Currently employees working a few hours a week are able to take advantage of the State's group medical coverage at a substantial cost to the State. Some individuals seek part-time employment with the State solely to obtain this benefit as an employee and also as a retiree. We have employed people who have retired from other employment and come to work for the State on a very limited part time basis solely for the insurance. This legislation in no way takes benefits away from current employees. It would, however, require an individual to work at least half-time in order to be eligible for this benefit after its passage. (Around 918 employees in the Executive Branch, exclusive of Higher Education and the Department of Education, are scheduled to work less than 20 hours/week. At present, we do not have accurate numbers for Higher Ed. The vast majority of the positions in SDE falling into this category are coaches, substitute teachers, and the like.)

- Requires legislative action on arbitration awards. This proposed legislation is also designed to address deficiencies in the State employee collective bargaining statute. Currently, a negotiated or arbitrated collective bargaining agreement must be submitted to the General Assembly within 10 days that the Agreement is reached or the Award is issued. The General Assembly may vote to reject an award by a super majority if it determines that there are insufficient funds for its implementation. If the General Assembly does not act upon the award or agreement within 30 days of its submission, then it is automatically approved. The proposed amendment to this provision gives the legislature the authority to approve or reject an agreement or an arbitration award by a majority of each house. It also provides that such an agreement or award would be deemed rejected if it is not acted upon within the thirty days.

These awards cost money. They have a significant fiscal impact on the state budget. The taxpayers deserve to have their elected representatives pass judgment as to whether the costs are reasonable or not under the circumstances. There should be accountability to the taxpayers for these costs. Unelected arbitrators do not provide that accountability. This bill would encourage open discussion and debate regarding these public expenditures.

- Put more reasonable limits on the extent of the issues that can be submitted to binding arbitration. The road to interest arbitration is relatively unimpeded. Either party may declare impasse and invoke the arbitration process after a period of negotiations. Connecticut currently has "open-scope" bargaining. Open-scope bargaining allows the parties to bargain over a vast number of issues, thus making them subject to binding interest arbitration. With Connecticut's issue-by-issue arbitration, hundreds of issues may be, and often are, submitted to arbitration which effectively removes decision-making from elected and appointed officials. That authority is then placed in the hands of arbitrators who may not fully appreciate the impact and expense of contract changes. This bill would return sound, fiscally responsible management to those charged with its execution.

- Require that state employee wages and salaries be negotiated on a coalition basis. Coalition bargaining can be defined as a situation where two or more unions bargain jointly for a common agreement covering the employees that they represent. Currently, the State pursues what is known as pattern bargaining. That is where a guideline or goal is established, which other units are expected to follow. While some arbitrators hold the pattern almost sacrosanct, others totally ignore it which leads to the wide variance in salary and wage increases between the various bargaining units. Coalition bargaining would ensure that all unions adhere to the wage guidelines so that no one union could outdo another. Coalition bargaining is not a foreign concept in this State. We currently bargain health insurance coverage and retirement benefits on a coalition basis.

These reforms will preserve equitable treatment of state employees, while keeping what is good for the public at large a primary consideration.

**House Bill 6363** implements various program changes that are necessary to implement Governor Rell's budget recommendation. The bill does the following:

- Restricts the amount payable to municipalities for Payment in Lieu of Taxes - New Manufacturing Machinery & Equipment grant to the amount appropriated for the grant
- Increases the amount municipalities would need to pay for the services of a resident state trooper from 70% to 85% in FY10 and to 100% in FY11
- Adds a requirement that OPM approve the disbursement of funds to towns from the Educational Aid for Blind/Visually Handicapped Children account. BESB reimburses towns up to \$6,400 per eligible blind child (The statutory change is permanent but the effect will likely only impact the first year because we recommended a \$2.0 million reduction in the second year and the sub-committee reported out the same amount.)

- Directs the Soldiers, Sailors and Marines Fund (SSMF) to limit expenditures to live within the interest accumulations of the fund. The proposal also limits the amount of the Fund's earnings that may be used for administrative expenses to no more than 25 percent (We have had discussions with interested legislators on this topic and are supportive of a compromise that gradually moves this small agency in the direction contemplated by this bill)
- Revises Section 18-101a of the CGS to increase the commissioner of Correction's authority to grant inmates a re-entry furlough from 30 days to 45 days. Allows furloughs for purposes consistent for rehabilitation. Removes the requirement that the Commissioner confirm whether or not an eligible inmate has an interview scheduled
- Changes the payment of costs incurred for administering the Citizens' Election Fund from the General Fund to the Citizens' Election Fund
- Increases the annual amount transferred by the Treasurer from \$2.3 million in FY08 and FY09 to \$6 million in FY10 and \$7 million in FY11 to administer the Citizens' Election Fund
- Adds to existing language on the Connecticut Conservation Corps clarifying that individuals who work for the Corps will not be considered state employees, that work with the Corps will not be held in violation of existing collective bargaining agreements, and that no state employee shall be laid off as a direct result of the Connecticut Conservation Corps program
- Deletes a reference to the Library Service Center which is proposed to be closed
- Reconfigures Judicial Districts by the transferring the towns of Meriden, Madison, and Wallingford from New Haven to the Middlesex Judicial District and the town of Cheshire from New Haven to the Waterbury Judicial District
- Repeals statutes restricting the modifications of appropriations for the Elections Enforcement Commission, the Ethics Commission and the Freedom of Information Commission and repeals statutes requiring the State Library to maintain library service centers. Additionally, section 18-81r which establishes the requirement to contract for a correctional ombudsman to field inmate complaints is repealed.

**House Joint Resolution 45** proposes an amendment to the State's Constitution that would require that at least seventy percent (70%) of any surplus shall be used to fund the Budget Reserve Fund or for the reduction of bonded indebtedness, and that the remainder of any surplus may not be used to pay for recurring expenditures. This proposal is simple but significant.

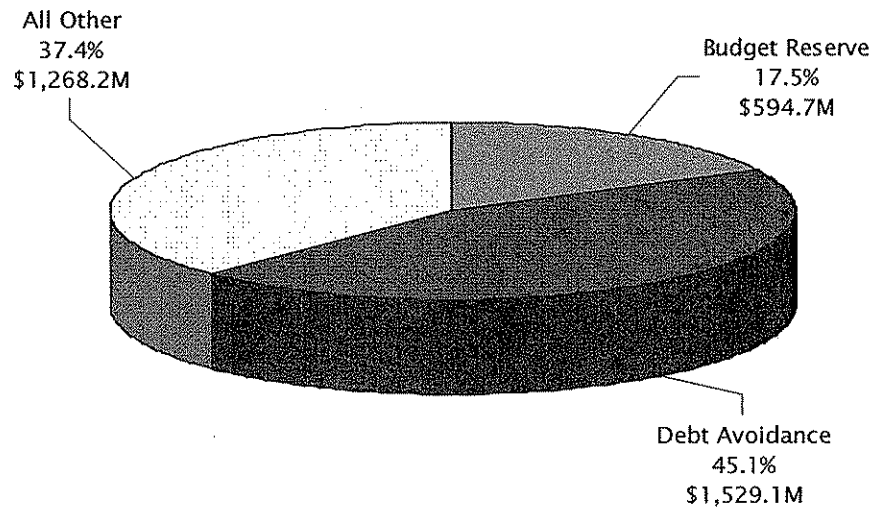
Since 1992, the state has registered \$7.1 billion in gross surpluses. Of that amount, \$3.3 billion was appropriated. If this provision had been in place, a substantial portion of that \$3.3 billion would have been deposited into our Rainy Day Fund and much of that amount would be available to us today, when we really need it. These funds, however,



have at times been used to pay for recurring expenditures, contributing to the state's structural deficit. Further, even adjusted for the high incomes we are blessed with in this state, we also have one of the highest debt burdens in the nation. The time has come to recognize that we can afford neither these structural deficits nor this level of debt. Action on this resolution will demonstrate to the residents of this state that we intend to take our stewardship of the state's assets seriously and manage them wisely and prudently.

I would like to thank the committee for the opportunity to present this testimony. I respectfully request the Committee support this bill and I will be happy to answer any questions you may have.

## Use of General Fund Surpluses FY1993 to FY2003



## Use of General Fund Surpluses FY2004 to FY2008

